

Smartphones are bridging digital divide but mergers could hurt

Just as the mergers of AT&T/SBC Communications/Bell South enabling Ma Bell to be put back together, mergers between Qwest US West and later Century Link have reduced competition in the fixed wire-line broadband market to produce an anti competitive duopoly system of big cable and phone companies on the Internet similar to the monopoly phone system of Ma Bell allowing the same mistakes to be made with the wireless market would be counter productive. The digital divide was created because of failed policies from the FCC during the Bush Cheney Administration allowing mergers that reduced consumer choice and competition in the fixed broadband market. However, smartphones are enabling the digital divide to be bridged. This trend of democratization and openness is unlikely to continue in a more consolidated wireless market.

Minorities are accessing the Internet through cheap, prepaid wireless data plans. Federal regulators weighing the proposed AT&T and T-Mobile merger must not ignore a significant but quietly unfolding revolution in how Americans connect to the Internet for information and products. The changes began with the 2007-2008 launch of the iPhone and Android and have accelerated with the introduction of low-cost cellphone plans. What is most striking about this smartphone revolution is its democratic character.

This month's Pew Internet Report on Smartphones spotlights some specifics. Under 30, nonwhite, low-income and less-educated smartphone users report "they mostly go online using their phones." Some 87% of them, according to Pew, sometimes use their mobile phones to browse the web, but 38% use their handsets as their primary means to access the Internet.

National surveys conducted in June by the Institute for Communication Technology Management (CTM) at the University of Southern California similarly found that more than 60% of Latino, black and young smartphone users often or even always use smartphones for their Internet connections. This use of smartphones for Internet browsing is far more extensive than by whites. For instance, while only 26% of whites have smartphones, they are owned by 37% of African-Americans and 46% of Latinos surveyed by CTM.

The development of a mobile device capable of delivering multiple applications for Web browsing, information and entertainment is an obvious driver of the smartphone revolution. A business model has democratized the revolution: pre-paid or no-contract cellphone plans, ranging in price from \$30 to \$50 a month, and mostly offered by regional wireless carriers like U.S. Cellular, MetroPCS and Cricket Communications. So popular have these plans become that multiple carriers in most U.S. cities, including wireless giants AT&T and Verizon, have jumped onto the prepaid bandwagon, offering more plans and phones to consumers.

In 2010, prepaid plans accounted for 10% of the \$160 billion in revenues generated by the mobile-phone market, according to CTIA, the U.S. wireless association. Recent data suggest that share will likely grow. From May 2010 to May 2011, new prepaid customers increased by 6.9 million, compared with 3.6 million new subscribers who signed the traditional two-year contract with monthly fees, according to Wireless Week.

This smartphone revolution has made wireless data the fastest-growing service category in the 300 million cellphone market, with average revenue per user growing more than 20% from 2009 to 2010. Latinos and blacks are disproportionately higher users of data services, according to CTM surveys. For example, minorities are twice as likely as the average user to access health information via smartphones. Use of m-commerce?buying via a phone?is 50% higher among blacks and Latinos.

The democratization of connectivity seems to undercut at least one objection to AT&T's proposed merger with T-Mobile. The concern is that the merged company might decrease Internet access for low-income consumers by dropping less profitable prepaid plans. But with the U.S. cellphone market nearly saturated and with wireless-data revenue projected to outstrip voice next year, all carriers?large or small?have a strong business incentive to offer their customers cost-effective data plans as well as voice.

For years, government officials, as well as academics, worried that the rise of the Internet would create a digital divide between those who could connect and those who couldn't. They wrestled with how to bring broadband to rural communities and to poor urban residents who couldn't afford laptops or a broadband connection at home. Many decried the U.S.'s 12th place ranking?behind South Korea, the United Kingdom, Canada and Germany?in fixed-broadband connectivity.